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MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
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SUBJECT: Planning for Reform of the Governance of the Military Health System

The transformations that have occurred in the Military Health System (MHS) over the past years, including the consolidation of medical facilities and functions in the National Capital Region (NCR) mandated by the Base Realignment and Closure (BRAC) process, have provided the Department with an opportunity to consider changes to the governance of the MHS to ensure that it is organized in an effective and cost-efficient manner.

To inform deliberations within the Department on this important issue, on June 14, 2011, Deputy Secretary Lynn established an internal task force to conduct a review of the governance of the MHS and to provide a report containing an evaluation of options for the governance of the MHS as a whole, for the governance of multi-Service medical markets, and for the governance of the NCR health system. The task force was co-chaired by Dr. George Peach Taylor, Jr., Deputy Assistant Secretary of Defense for Force Health Protection and Readiness, and Major General (Dr.) Doug Robb, Joint Staff Surgeon, and consisted of representatives from each of the Military Departments, the Joint Staff, and the Offices of the Under Secretary of Defense for Personnel and Readiness, Under Secretary of Defense (Comptroller), and Director, Cost Assessment and Program Evaluation. The task force delivered its report on September 15, 2011, and I thank the task force co-chairs, members, and staff for their diligent and thoughtful work on this very important and complex matter.

Subsequent to the delivery of the task force report, section 716 of the National Defense Authorization Act for Fiscal Year 2012 was enacted. Section 716 prohibits the Department from restructuring or reorganizing the MHS until the Department and the Comptroller General of the United States have each provided a specified report to the congressional defense committees, and

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after a specified waiting period has elapsed. The Department has since completed and delivered its report as required by section 716. Included in this report was a description of the Department's position on reforms that should be made to the governance of the MHS. This position builds on the options developed by the task force and was arrived at through extensive consultations that have taken place over the past months among the Deputy Secretary of Defense, Chairman of the Joint Chiefs of Staff, Service Secretaries and Chiefs, and other senior officials of the Department. It is summarized below:

1. **Defense Health Agency:** The TRICARE Management Activity (TMA) will be transitioned to a "Defense Health Agency" (DHA), an agency of the Department of Defense under the Under Secretary of Defense for Personnel and Readiness (USD(P&R)) and operating under the authority, direction, and control of the Assistant Secretary of Defense for Health Affairs (ASD(HA)). The DHA will be designated a Combat Support Agency, with oversight by the Chairman of the Joint Chiefs of Staff (CJCS) in accordance with DoD Directive 3000.06, "Combat Support Agencies." The DHA will assume responsibility for the functions currently undertaken by TMA, except for such functions that are determined to be assigned to the ASD(HA). In addition, the DHA will assume responsibility for shared services, functions, and activities in the MHS, including but not limited to the TRICARE Health Plan, pharmacy programs, medical education and training, medical research and development, health information technology, facility planning, public health, medical logistics, acquisition, budget and resource management, and other common business and clinical processes. The position of Director, DHA, will be a general or flag officer in the grade of Lieutenant General or Vice Admiral and published on the Joint Duty Assignment List (JDAL) in accordance with DoD Instruction 1300.19, "DoD Joint Officer Management Program." Responsibility for the management and allocation of the Defense Health Program (DHP) budget will continue to reside with the ASD(HA). The actions described in this paragraph build on, and supersede, the provisions related to the MHS Support Activity in the March 14, 2011, Secretary of Defense memorandum entitled "Track Four Efficiency Initiatives Decisions."

   The target dates for the attainment of initial operating capability and full operational capability for the DHA, the shared services and other functions and activities for which the DHA will have responsibility, the potential use of a single financial accounting system for allocation and tracking of DHP funds, and the military, civilian, and contractor staffing levels for the Office of the ASD(HA) and the DHA will be among the items addressed in the implementation plan referenced below.

2. **Multi-Service Markets:** In each geographic medical market determined to be a multi-Service market due to overlapping catchment areas, a Market Manager will be appointed with the mission to create and sustain a cost-effective, coordinated, and high-quality health care system in that area. The Market Manager in each such market will have authority to, among other things, manage and allocate the budget for the market, direct the adoption of common clinical and business functions for the market, and direct the movement of workload and workforce between or among the medical treatment facilities (MTFs) in the market. The Market Manager for a market will be selected by, and among

the military personnel from, the Military Department or Departments designated as lead for that market. The actions described in this paragraph do not apply to the NCR, which is covered in paragraph 3 below.

The target date(s) for the establishment of Market Managers for multi-Service markets, the specific authorities and responsibilities of the Market Managers, the geographic medical markets designated as multi-Service markets, and the Military Department or Departments designated as lead(s) for each such market will be among the items addressed in the implementation plan referenced below.

3. **National Capital Region:** After such time as the transition of TMA to the DHA described in paragraph 1 has begun, the authority, direction, and control over the NCR health system, to include the Walter Reed National Military Medical Center (WRNMMC), the Ft. Belvoir Community Hospital (FBCH), and all other military medical treatment facilities that are determined to reside within the NCR market, will be assigned to the "NCR Medical Directorate," a subordinate organization of the DHA and successor to Joint Task Force National Capital Region Medical (JTF CAPMED). The position of Director, NCR Medical Directorate, will be filled by a general or flag officer in the grade of Major General or Rear Admiral (Upper Half) and will be published on the JDAL. The directors of the WRNMMC, the FBCH, and the other MTFs in the NCR Medical Directorate will be selected by the USD(P&R) (or, if delegated, the ASD(HA), Director, DHA, or Director, NCR Medical Directorate) from nominees provided by the Military Departments. Military personnel for the WRNMMC, the FBCH, and the other MTFs within the NCR Medical Directorate will be provided by the Military Departments according to manning documents maintained by the DHA.

   The target date for the transfer of the NCR system to the authority, direction, and control of the NCR Medical Directorate, and the determination of the MTFs that reside within the NCR market and therefore will be assigned to the NCR Medical Directorate, will be among the items addressed in the implementation plan referenced below.

The reforms described in the paragraphs above are based on a belief that there are opportunities to realize savings in the MHS through the adoption of common clinical and business processes and the consolidation and standardization of various shared services. They are also informed by a recognition that there currently are two notably different regional governance models in the MHS, namely a cross-Service market management model, best exemplified by the San Antonio Military Health System, and a singular authority model, employed by JTF CAPMED. Both models have proven successful to date in their respective regions, and, as they are still in their early stages of development and execution, both should be allowed to continue to exist and be improved upon. The modifications described in paragraphs 2 and 3 above will, respectively, enhance the effectiveness of the cross-Service market management model and provide an appropriate reporting and supervisory structure for the singular authority model. Improving these two models and allowing them both to continue in modified form in their respective regions will, among other things, provide the Department with

greater insight, based on actual outcomes, that may inform considerations of more significant transformations of MHS governance in the future.

To ensure that the Department maintains momentum on this very important issue, I direct the Under Secretary of Defense for Personnel and Readiness and the Chairman of the Joint Chiefs of Staff to stand up a planning team to develop an implementation plan for the governance changes described above. The implementation team will be led by two Implementation Program Co-Directors, designated by the USD(P&R) and the CJCS, respectively, and will include representatives from the Military Services, the Joint Staff, and relevant components of the Office of the Secretary of Defense. The implementation plan will be submitted to the Deputy Secretary of Defense for approval so that the Department is prepared to begin execution of these changes once the provisions of section 716 have been fulfilled. In addition, this planning team will support the work to be performed by the Comptroller General pursuant to section 716.